Bramwell Brown Ltd

Investment Advisers – Brokers

Director: Brett Dymond – AFA, BBS, GradDipBusStud (Personal Financial Planning)

Bramwell Brown Limited – Newsletter – November 2015

Official Cash Rate

The Reserve Bank has left the OCR at 2.75% in their latest review. Here is the bulk of Graeme Wheeler's address. I have underlined some of the key points:

Global economic growth is below average and global inflation is low despite highly stimulatory monetary policy. Financial market volatility has eased in recent weeks, but concerns remain about the prospects for slower growth in China and East Asia especially. Financial markets are also uncertain about the timing and effects of monetary policy tightening in the United States and possible easing elsewhere.

The sharp fall in dairy prices since early 2014 continues to weigh on domestic farm incomes. However, growth in the services sector and construction remains robust, driven by net immigration, tourism, and low interest rates. Global dairy prices have risen in recent weeks, contributing to improved household and business sentiment. However, it is too early to say whether these recent improvements will be sustained. House price inflation in Auckland remains strong, posing a financial stability risk. While residential building is accelerating, it will take some time to correct the supply shortfall. The Government has introduced new tax requirements and the Reserve Banks new LVR restrictions on investor lending come into effect on 1 November.

CPI inflation remains below the 1 to 3 percent target range, largely reflecting a combination of earlier strength in the New Zealand dollar and the 60 percent fall in world oil prices since mid-2014. The exchange rate has been moving higher since September, which could, if sustained, dampen tradables sector activity and medium-term inflation. This would require a lower interest rate path than would otherwise be the case.

To ensure that future average CPI inflation settles near the middle of the target range, some further reduction in the OCR seems likely. This will continue to depend on the emerging flow of economic data. It is appropriate at present to watch and wait.

You can see from the Governor's speech that all is not well in the world. China is slowing, the US recovery continues to stall, and here at home we are grappling with the low dairy payout. Without doubt we should expect to suffer lower interest rates for longer, and we should expect another cut to the Official Cash Rate in the next few months.

This is not something fixed interest investors want to hear, but I would reiterate my comments in previous newsletters about chasing higher returns. Those higher returns come with an associated risk, and I wonder if we aren't better to look at other options first. The best option is the least palatable – "spend less money". Regardless of risk profile I think we all need to lower our expectations around returns, possibly for years to come. Ten years ago when bank deposits were paying 10% per annum it would have been hard to believe that interest rates could fall to such low levels. And I think it's easy to be lulled into an expectation that things will revert to "normal" over time. That timeframe might be decades rather than years. Our one saving grace is that inflation is at very low levels; therefore our capital is not being eroded as quickly as it has in the past.

Bank Interest Rates

Unfortunately the decrease in the Official Cash Rate has flowed through to the rates on offer from our major trading banks.

	1 Year	2 Years	3 Years	4 Years	5 Years
ANZ	3.50%	3.55%	3.60%	3.65%	3.70%
ASB	3.50%	3.60%	3.65%	3.70%	3.75%
BNZ	3.55%	3.60%	3.65%	3.70%	3.75%
Heartland	3.70%	3.70%	3.75%	3.80%	3.90%
Kiwibank	3.45%	3.50%	3.60%	3.50%	3.40%
Rabobank	3.55%	3.75%	3.84%	3.94%	4.04%
UDC	3.70%	3.65%	3.70%	3.80%	3.90%
Westpac	3.25%	3.30%	3.45%	3.45%	3.50%

Repairs & Maintenance

I'm pleased to say I now have my knee and shoulder surgeries behind me. The knee was a piece of cake but the shoulder kicked me into touch briefly. Without doubt I have taken good health for granted and I take my hat off to anyone suffering pain and even a minor disability on a regular basis. Thanks to Sue for manning the fort in my absence and thanks to all those clients who sent their best wishes. The newsletter might be a shortened version for the next couple of months.